



Arizona State Senate **Background Brief**

October 4, 2006

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

MEDICARE

INTRODUCTION

The federal Centers for Medicare and Medicaid Services (CMS) administers Medicare, which covers over 40 million Americans. It provides health insurance to people aged 65 and older, people who have permanent kidney failure or amyotrophic lateral sclerosis (ALS, commonly known as Lou Gehrig's disease), and certain people with disabilities.

Medicare pays a portion of the cost of medical care for enrolled individuals. Often, deductibles and coinsurance (cost sharing in which the insurer and the insured each pay a portion of the costs, usually set at a percentage of the total costs) are required of the beneficiary.

MEDICARE COVERAGE – “PARTS”

Medicare has four major components, Part A, Part B, Part C and Part D. **Part A** covers inpatient hospital care, hospice care, limited inpatient care in a skilled nursing facility and some home health care services. **Part B** covers medical care and services provided by physicians and other medical practitioners, durable medical equipment, preventive care and some outpatient care and home health services. **Part D** is the prescription drug benefit that began in January 2006. This benefit is administered through private plans and there are varying levels of drug coverage and cost sharing offered under Part D.

Under traditional Medicare, Parts A, B and D are delivered through a fee-for-service system administered by CMS. However, enrollees also have the option to receive care through privately run plans, which typically offer benefits in a managed care system. **Part C** refers to these private plans (called Medicare Advantage plans) that provide Part A, B and D services. Medicare Advantage plans provide all covered services but may also offer additional services such as dental or vision care. In addition, Medicare Advantage plans may require lower beneficiary cost sharing but may charge higher premiums than traditional Medicare.

Because Medicare does not cover all health services, many enrollees have supplemental insurance to cover these “gaps” in Medicare coverage. Supplemental insurance may include employer-sponsored plans (e.g., plans offered to retirees), Medigap plans (private insurance that pays for costs not covered

under Medicare), or Medicaid. Typically, individuals enrolled in Medicare Advantage plans do not need supplemental coverage.

MEDICARE ELIGIBILITY AND FINANCING

Part A is financed largely through federal payroll taxes paid into Social Security by employers and employees. Most individuals ages 65 and over are automatically entitled to free Part A if they or their spouse are eligible for Social Security payments or railroad retirement benefits. Individuals who are under age 65 but who receive Social Security Disability Insurance payments become eligible for free Part A after receiving those payments for two years. People with end-stage renal disease and ALS are entitled to free Part A regardless of their age. Individuals over age 65 who do not otherwise meet the eligibility requirements may purchase Part A by paying a monthly premium.

Part B is financed by monthly premiums paid by Medicare beneficiaries and by general revenues from the federal government. Individuals eligible for Part A may opt into Part B by paying monthly premiums; 95 percent of all Part A beneficiaries also enroll in Part B. If they are age 65 or older, U.S. citizens and certain lawfully admitted noncitizens who do not qualify for free Part A may purchase Part B even if they do not purchase Part A.

Part D is financed through beneficiary premiums, federal general revenues and payments by states to the federal government to cover the costs of the benefit. Anyone who has Part A or Part B is eligible for Part D, although enrollment is voluntary.

In addition to the various financing mechanisms described above, Medicare beneficiaries themselves further share the cost of the program through copayments and deductibles that are required for many of the services covered under Parts A, B and D.

There are several Medicare savings programs that help people with low income and asset levels pay for health care coverage. Applicants must meet certain income and asset limits to qualify for these programs. The qualified Medicare beneficiary program covers the cost of Medicare premiums, deductibles and copayments for Medicare Parts A and B. The Specified Low Income Medicare Beneficiary Program and the Qualifying Individuals 1 Program pay the monthly cost for Medicare Part B. In Arizona, these programs are administered by the Arizona Health Care Cost Containment System (AHCCCS). In addition to these programs, some individuals are eligible for both Medicare and Medicaid. For these individuals, AHCCCS covers costs that are not covered by Medicare.

ADDITIONAL RESOURCES

- Medicare
www.medicare.gov
- Centers for Medicare and Medicaid Services
www.cms.hhs.gov
- Social Security Administration
www.ssa.gov
- Kaiser Family Foundation
<http://kff.org/medicare/>